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LISA D. NORDSTROM
Lead Counsel
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March 9, 2020

VIA HAND DELIVERY

Diane Hanian, Secretary
Idaho Public Utilities Commission
11331 W. Chinden Boulevard
Building 8, Suite 201-A
Boise, Idaho 83714

Re: Case No. IPC-E-20-11
Accounting Order for Costs Associated with Cloud Computing Arrangements
Idaho Power Company's Application

Dear Ms. Hanian:

Enclosed for filing in the above matter please find an original and seven (7) copies of Idaho Power Company's Application.

Also enclosed for filing are an original and eight (8) copies of the Direct Testimony of Matthew T. Larkin. One copy of the aforementioned testimony has been designated as the "Reporter's Copy." In addition, a disk containing a Word version of Mr. Larkin's testimony is enclosed for the Reporter.

If you have any questions about the enclosed documents, please do not hesitate to contact me.

Very truly yours,

Lisa D. Nordstrom

LDN/kkt
Enclosures

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Attorney for Idaho Power Company

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR AN) CASE NO. IPC-E-20-11
ACCOUNTING ORDER FOR COSTS)
ASSOCIATED WITH CLOUD) APPLICATION
COMPUTING ARRANGEMENTS.)
_____)

Idaho Power Company (“Idaho Power” or “Company”), in accordance with *Idaho Code* § 61-524 and RP 052, hereby respectfully makes application to the Idaho Public Utilities Commission (“Commission”) for an order (1) approving the deferral of costs associated with cloud computing arrangements to a regulatory asset, and (2) acknowledging that the unamortized regulatory asset amounts are eligible for rate base treatment and the associated annual amortization expense is eligible for potential recovery in a future rate proceeding.

In support of this Application, Idaho Power asserts as follows:

I. CLOUD COMPUTING

1. For purposes of Information Technology (“IT”), on-premise solutions are those IT products or applications that are kept within Idaho Power’s own premises and require the Company to purchase a license or copy of the software to use it. An on-premise solution is managed and maintained by the Company requiring in-house server hardware, software licenses, integration capabilities, and personnel on hand to support and manage the application should issues arise.

2. Cloud computing, on the other hand, is the delivery of IT products, including servers, storage, databases, networking, and software, over the internet or “cloud.” The basic notion behind cloud computing is that the location of the hardware or operating system on which a product is running is irrelevant to a user, allowing products to be updated easily and often with minimal business disruptions. Due to changes in technology over the last several decades, cloud computing solutions have evolved leading to the current environment that primarily favors cloud-based solutions over previous on-premise solutions. Currently, the most common cloud computing services include storage, networking, processing power, and standard office software applications. In addition, more advanced business analytics features such as Machine Learning and Artificial Intelligence are primarily delivered via cloud computing models.

3. Cloud computing services can provide a utility with access to vendors who operate specialized technology, while providing a way to address technological obsolescence as the contracts with these companies allow for renewals that use the latest technologies. These cloud computing services have gained prominence, offering faster and more flexible resources in a secure manner, adding to the umbrella of IT solutions

available. Idaho Power has entered into a number of arrangements for cloud computing services covering a broad array of applications necessary to provide essential services to customers because the on-premise solution either became obsolete or was cost prohibitive.

II. CURRENT ACCOUNTING TREATMENT OF COSTS ASSOCIATED WITH CLOUD COMPUTING ARRANGEMENTS

4. Fee structures for cloud computing arrangements can vary but generally reflect ongoing monthly, quarterly, or annual payments, or similar to a traditional on-premise IT solution, an upfront payment can be made in return for a reduced monthly fee, or no ongoing fee at all, over the course of the contract period. The costs of cloud computing arrangements however are not accounted for the same way as costs associated with the purchase of traditional on-premise IT solutions. Based on current accounting guidelines, the Company currently classifies investments in traditional on-premise IT solutions, including the integration costs, as a capital expenditure, while cloud-based products and services are classified as an operating expenditure, with the exception of the integration costs which are capitalized.

5. Absent the ability to capitalize cloud computing arrangement costs, an earnings opportunity is displaced as the Company is not eligible to earn a return on a cost that would otherwise be authorized for inclusion in rate base if purchased through a non-cloud-based software solution. Recognizing the disincentive that exists, in November 2016, the National Association of Regulatory Commissioners (“NARUC”) adopted a *Resolution Encouraging State Utility Commissions to Consider Improving the Regulatory Treatment of Cloud Computing Arrangements* (“Resolution”). In the Resolution, NARUC encouraged state utility commissions to consider improving the regulatory treatment of

cloud computing arrangements, resolving that utilities best serve customers by making software procurement decisions regardless of the delivery method or payment model and encouraged state regulators to consider whether cloud computing costs should receive similar regulatory accounting treatment as traditional on-premise solutions.

III. PROPOSED ACCOUNTING TREATMENT OF COSTS ASSOCIATED WITH CLOUD COMPUTING ARRANGEMENTS

6. Under the current regulatory accounting treatment there is an inherent financial disincentive for Idaho Power to pursue certain cloud computing arrangements that would otherwise be beneficial to customers over time. Idaho Power is proposing to capitalize all costs associated with cost-effective cloud computing arrangements because the services provide the Company with an investment equivalent to that of a traditional on-premise IT solution, thereby removing a financial disincentive to pursuing cost-effective IT solutions that exists today. The Company evaluates the purchase of IT infrastructure on a case-by-case basis. In order to get the most value from the service or investment, it is important that Idaho Power have no regulatory or accounting reason to favor one solution when an alternative would serve the Company and its customers better.

7. To do so, the Company is requesting the Commission equalize the treatment of expenditures associated with traditional on-premise IT solutions and cloud computing arrangements. Specifically, Idaho Power requests (1) approval of the deferral of costs associated with cloud computing arrangements to a regulatory asset, and (2) that the unamortized regulatory asset amounts are eligible for rate base treatment and the associated amortization expense is eligible for recovery in the next general rate proceeding. Because the Company's request in this case is for an accounting order

associated with costs of future cost-effective cloud computing arrangements, the proposal will not alter the Commission's ability to determine the prudence of the costs associated with cloud computing arrangements in the Company's next general rate proceeding.

IV. MODIFIED PROCEDURE

8. Idaho Power believes that a hearing is not necessary to consider the issues presented herein, and respectfully requests that this Application be processed under Modified Procedure; i.e., by written submissions rather than by hearing. RP 201, *et seq.* If, however, the Commission determines that a technical hearing is required, the Company stands ready to present its testimony and support the Application in such hearing.

V. COMMUNICATIONS AND SERVICE OF PLEADINGS

9. Communications and service of pleadings with reference to this proceeding should be served on the following:

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VI. REQUEST FOR RELIEF

10. Cloud computing services have gained popularity, as they offer faster and more flexible resources in a secure manner, adding to the umbrella of IT solutions available. Under the current regulatory accounting treatment there is an inherent financial disincentive for the Company to pursue certain cloud computing arrangements that would otherwise be beneficial to customers over time. Therefore, Idaho Power respectfully

requests that the Commission issue an order (1) approving the deferral of costs associated with cloud computing arrangements to a regulatory asset, and (2) acknowledging that the unamortized regulatory asset amounts are eligible for rate base treatment and the associated annual amortization expense is eligible for potential recovery in a future rate proceeding.

DATED at Boise, Idaho, this 9th day of March 2020.



LISA D. NORDSTROM
Attorney for Idaho Power Company